



ACADEMY OF DOVER
(A Component Unit of the State of Delaware)
Dover, Delaware

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
Year Ended June 30, 2005

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STATE OF DELAWARE

OFFICE OF AUDITOR OF ACCOUNTS

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AUDITOR OF ACCOUNTS

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INDEPENDENT AUDITORS' REPORT

SCHOOL BOARD MEMBERS
ACADEMY OF DOVER
Dover, Delaware

We have audited the accompanying financial statements of the governmental activities and the general fund of Academy of Dover (the "School") (a component unit of the State of Delaware) as of and for the year ended June 30, 2005 which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the School as of June 30, 2005 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Academy of Dover will continue as a going concern. As discussed in Note K to the financial statements, the School has suffered recurring losses from operations and has a deficiency in net assets which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note K. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with Government Auditing Standards, we have also issued our report dated September 1, 2005 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis (MD&A) and the budgetary comparison information on pages 5 through 8 and 19 through 20, respectively, are not required parts of the basic financial statements but are

supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The condensed government-wide financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The condensed government-wide financial statements have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

OFFICE OF AUDITOR OF ACCOUNTS

R. Thomas Wagner, Jr., CGFM, CFE
Auditor of Accounts

Dover, Delaware
September 1, 2005



STATE OF DELAWARE

OFFICE OF AUDITOR OF ACCOUNTS

R. THOMAS WAGNER, JR., CGFM, CFE
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

SCHOOL BOARD MEMBERS
ACADEMY OF DOVER
Dover, Delaware

We have audited the financial statements of the governmental activities and general fund of Academy of Dover (the "School") as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as 2005-01 and 2005-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We also noted certain additional matters that we have reported to management of the School in a separate letter dated September 1, 2005.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the School's management, School Board Members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, and Secretary of Finance and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

OFFICE OF AUDITOR OF ACCOUNTS

R. Thomas Wagner, Jr., CGFM, CFE
Auditor of Accounts

Dover, Delaware
September 1, 2005

ACADEMY OF DOVERMANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005

The Management's Discussion and Analysis of the Academy of Dover Charter School's (AOD) financial performance provides an overview of AOD's financial activities for the year ended June 30, 2005. This discussion and analysis should be read in conjunction with the Independent Auditor's Report on page 1 and AOD's financial statements and related notes that begin on page 9.

FINANCIAL HIGHLIGHTS

Revenue of \$3,265,145 was principally provided from three sources - State Support of \$2,231,437 (68.3%), Federal Support of \$496,111 (15.2%) and Charges to School Districts of \$461,716 (14.2%). All other sources of revenue accounted for \$75,881 (2.3%) of revenue. Expenditures exceeded revenues, creating a change in net assets of \$(124,821) for fiscal year 2005. This net asset deficit when combined with the net asset deficit at the beginning of the fiscal year results in an overall net asset deficit of \$449,299. AOD ended the year with assets of \$531,642, liabilities of \$980,941 and had no restricted funds.

USING THE ANNUAL REPORT

The annual report consists of a series of financial statements and notes to those financial statements. The financial statements are organized so the reader can understand AOD as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

REPORTING ON AOD AS A WHOLEStatement of Net Assets and Statement of Activities

One of the most important questions asked about School finances is "Is the School better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about AOD as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into consideration regardless of when cash was received or paid.

These two statements report AOD's net assets and changes in them. The change in net assets usually provides the reader with a tool to assist in determining whether AOD's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as student enrollment, growth, budgets, and facility conditions in arriving at their conclusion regarding the overall financial health of AOD.

REPORTING AOD'S MOST SIGNIFICANT FUNDSFund Financial Statements

Analysis of AOD's major funds and fund financial statements provides detailed information about the most significant funds, not AOD as a whole. The fund financial statements begin on page 11.

Governmental Funds

AOD's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balance left at year-end available for spending in future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of AOD's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or less financial resources available to spend in the near future to finance AOD's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements on pages 12 and 14.

ACADEMY OF DOVERMANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator in tracking changes in AOD's financial position. In this case, AOD's liabilities exceeded assets by \$449,299 at June 30, 2005.

NET ASSETS

	<u>Governmental Activities</u>	
	2005	2004
Current and other assets	\$ 164,588	\$ 118,345
Capital assets	367,054	417,399
Total assets	<u>531,642</u>	<u>535,744</u>
Current liabilities	433,670	794,406
Noncurrent liabilities	547,271	65,816
Total liabilities	<u>980,941</u>	<u>860,222</u>
Net assets:		
Invested in Capital Assets, Net of Related Debt		
Unrestricted (deficit)	<u>(750,537)</u>	<u>(524,667)</u>
Total net assets	<u>\$ (449,299)</u>	<u>\$ (324,478)</u>

Changes in net assets were as follows during the year ended June 30, 2005.

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	2005	2004
Program Revenues:		
Charges for services	\$ 51,086	\$ 30,341
Operating grants and contributions	519,511	393,306
General Revenues:	<u>2,694,548</u>	<u>2,308,593</u>
Total Revenues	<u>3,265,145</u>	<u>2,732,240</u>
Program Expenses:		
Instructional services	1,863,184	1,838,137
Operation and maintenance of facilities	1,083,188	907,019
Transportation	223,440	182,456
School lunch services	220,154	129,106
Total Expenses	<u>3,389,966</u>	<u>3,056,718</u>
Increase (Decrease) in net assets	<u>\$ (124,821)</u>	<u>\$ (324,478)</u>

ACADEMY OF DOVERMANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005Analysis of Revenue

Student enrollment is the principal basis for revenues. AOD had an enrollment of 425 students in fiscal year 2005. This is an increase of 14 students when compared to fiscal year 2004. AOD has an authorized capacity of 475 students and believes it will be able to increase enrollment in subsequent years towards this capacity.

During fiscal year 2005, the Board requested from the State of Delaware Department of Education an enrollment capacity reduction from 525 to 475 students due to space limitations of the facility.

During fiscal year 2005, AOD received additional federal grant funds/reimbursements and additional state and local revenues and grants due to the increase in enrollment.

Analysis of Expenditures

Increases in expenditures are attributable to the increase in enrollment and the transfer of food services provisions from an external firm in fiscal year 2004 to an in-house operation in fiscal year 2005. The transfer of responsibilities resulted in an increase in food services costs of \$91,048.

GOVERNMENTAL FUND ANALYSIS

AOD's governmental fund reported a deficit fund balance at June 30, 2005 and 2004 of (\$158,959) and (\$524,667), respectively. The improvement in the fund balance is due to proceeds from notes payable. Operation and maintenance of facilities increased due to higher utility costs. Transportation and School Lunch Services expenditures increased due to increased enrollment. In addition, School Lunch Services expenditures increased due to the transfer of food services provisions from an external firm to AOD.

	2005	2004
Revenues:		
State Support	\$ 2,231,437	\$ 1,921,972
Federal Support	496,111	393,306
Charges to School Districts	461,716	380,147
School Lunch Services	51,086	30,341
Miscellaneous Revenues	23,400	5,090
Earnings on Cash and Cash Equivalents	1,395	1,384
Total Revenues	<u>\$ 3,265,145</u>	<u>\$ 2,732,240</u>
Expenditures:		
Instructional Services	\$ 1,883,231	\$ 1,838,137
Operation and Maintenance of Facilities	1,010,378	848,123
Transportation	223,440	182,456
School Lunch Services	222,572	129,106
Capital Outlay	-	476,295
Debt Service - Principal	199,832	82,352
Total Expenditures	<u>\$ 3,539,453</u>	<u>\$ 3,556,469</u>

ACADEMY OF DOVERMANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**GENERAL FUND BUDGETING HIGHLIGHTS**

	Final Budget	Actual - Budgetary Basis	Variance
Revenues	\$ 3,231,105	\$ 3,190,032	\$ (41,073)
Expenditures	3,416,172	3,316,824	99,348
Proceeds from Notes Payable	-	168,468	168,468
	<u>3,416,172</u>	<u>3,485,292</u>	<u>267,816</u>
Net Change in Fund Balance	\$ <u>(185,067)</u>	\$ <u>41,676</u>	\$ <u>226,743</u>

Financial Performance

Overall, actual revenues were less than budgeted revenues due to the decrease in anticipated enrollment. The decreased enrollment also resulted in actual expenditures being less than budgeted expenditures.

There were decreases in contracted services and capital outlay when comparing budget to actual expenditures. These decreases in expenditures are attributable to reduced enrollment and the reclassification of capital purchases to supplies and materials.

Increases in food service expenditures are attributable to the transfer of food service provisions from an external firm in fiscal year 2004 to an in-house operation in fiscal year 2005. The transfer of responsibilities resulted in an increase in food services costs of \$88,387 when comparing budget to actual. There was an increase in supplies and materials that is due to the inclusion of payments to School Specialty of \$55,363, increased janitorial supplies of \$17,506, and instructional supplies of \$29,760 when comparing budget to actual.

An agreement was reached to hold current year rent expense to fiscal year 2004 rates. This resulted in a decrease of rent expenditure when comparing budget to actual of \$58,342.

In addition to cash available through the normal activities of the School, Mosaica Education, Inc., the management company, returned cash back to the School for part of its management fees earned earlier in the year and bought certain excess school supplies from AOD. The School has turned current liabilities due to Mosaica into long-term promissory notes. There are several initiatives occurring to address longer-term enrollment growth that will create additional revenues to cover operating costs.

SIGNIFICANT COMMITMENTS

AOD has added four (4) multi-year financial commitments totaling \$640,016 in addition to the obligations signed during fiscal year 2004. These commitments are for furniture and equipment and unpaid management fees from fiscal years 2004 and 2005. These arrangements are more fully described in Note E – Long-Term Debt that begins on page 19.

CAPITAL ASSETS

AOD invested \$22,465 in capital assets during fiscal year 2005 and \$476,295 during fiscal year 2004. Accumulated depreciation of \$131,706 resulted in a net carrying value of \$367,054. The composition of approximately 60% for computers and related equipment, 30% for furniture and fixtures, and 10% for copiers and miscellaneous items did not change with the additional capital assets acquired. Additional information is available in Note C on pages 17 and 18.

ACADEMY OF DOVER

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

Enrollment must increase to enrollment capacity in future years, additional grant monies must be secured, and management fees reduced to sustain the operations of AOD. AOD has stability in the forms of a long-term lease for its facility.

CONTACTING AOD'S FINANCIAL MANAGEMENT

The financial report is designed to provide our partners and stakeholders with a general overview of AOD's finances and to show AOD is accountable for the public monies it receives. If you have any questions about this report or need additional financial information, contact us at (302) 674-0684.

ACADEMY OF DOVER

STATEMENT OF NET ASSETS
JUNE 30, 2005

<u>ASSETS</u>		<u>GOVERNMENTAL ACTIVITIES</u>
CURRENT ASSETS		
Cash and Cash Equivalents		\$ 73,421
Receivables		
Delaware School Districts		15,425
Governments - Federal Through State		73,960
Other		494
Prepaid Items		1,288
TOTAL CURRENT ASSETS		<u>164,588</u>
NONCURRENT ASSETS		
Capital Assets, Net of Depreciation		<u>367,054</u>
TOTAL ASSETS		<u>531,642</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts Payable		98,954
Accrued Salaries and Related Costs		224,593
Capital Leases Payable		65,816
Debt		44,307
TOTAL CURRENT LIABILITIES		<u>433,670</u>
NONCURRENT LIABILITIES		
Debt		<u>547,271</u>
TOTAL LIABILITIES		<u>980,941</u>
<u>NET ASSETS (DEFICIT)</u>		
Invested in Capital Assets, Net of Related Debt		301,238
Unrestricted (Deficit)		<u>(750,537)</u>
TOTAL NET ASSETS (DEFICIT)		<u>\$ (449,299)</u>

See accompanying notes to basic financial statements.

ACADEMY OF DOVER

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS
					TOTAL GOVERNMENTAL ACTIVITIES
GOVERNMENTAL ACTIVITIES					
Instructional Services	\$ 1,922,418	\$ -	\$ 400,643	\$ -	\$ (1,521,775)
Supporting Services:					
Operation and Maintenance					
of Facilities	1,023,954	-	-	-	(1,023,954)
Transportation	223,440	-	-	-	(223,440)
School Lunch Services	220,154	51,086	118,868	-	(50,200)
TOTAL CHARTER SCHOOL	\$ 3,389,966	\$ 51,086	\$ 519,511	\$ -	(2,819,369)
GENERAL REVENUES					
Charges to School Districts					461,716
State Aid not Restricted to Specific Purposes					2,231,437
Earnings on Cash and Cash Equivalents					1,395
TOTAL GENERAL REVENUES					2,694,548
CHANGE IN NET ASSETS					(124,821)
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR					(324,478)
NET ASSETS (DEFICIT) AT END OF YEAR					\$ (449,299)

See accompanying notes to basic financial statements.

ACADEMY OF DOVER

BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2005

		<u>GENERAL</u>	
		<u>FUND</u>	
<u>ASSETS</u>			
Cash and Cash Equivalents	\$	73,421	
Receivables			
Delaware School Districts		15,425	
Governments - Federal Through State		73,960	
Other		494	
Prepaid Items		1,288	
TOTAL ASSETS		164,588	
<u>LIABILITIES</u>			
Accounts Payable		98,954	
Accrued Salaries and Related Costs		224,593	
TOTAL LIABILITIES		323,547	
<u>FUND BALANCE (DEFICIT)</u>			
Unreserved (Deficit)		(158,959)	
TOTAL LIABILITIES AND FUND BALANCE	\$	164,588	

See accompanying notes to basic financial statements.

ACADEMY OF DOVER

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUND TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

Total Fund Balance (Deficit) - Governmental Fund	\$	(158,959)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund. The total cost of capital assets is 498,760 and the related accumulated depreciation is \$131,706.		367,054
Long-term capital lease liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund.		(65,816)
Long-term debt liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the fund.		<u>(591,578)</u>
TOTAL NET ASSETS (DEFICIT) - GOVERNMENTAL ACTIVITIES	\$	<u>(449,299)</u>

See accompanying notes to basic financial statements.

ACADEMY OF DOVER

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2005

	GENERAL FUND
REVENUES	
State Support	\$ 2,231,437
Federal Support	496,111
Charges to School Districts	461,716
School Lunch Services	51,086
Miscellaneous Revenues	23,400
Earnings on Cash and Cash Equivalents	1,395
TOTAL REVENUES	<u>3,265,145</u>
EXPENDITURES	
Current:	
Instructional Services	1,883,231
Supporting Services:	
Operation and Maintenance of Facilities	1,010,378
Transportation	223,440
School Lunch Services	222,572
Debt Service - Principal	199,832
TOTAL EXPENDITURES	<u>3,539,453</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(274,308)
OTHER FINANCING SOURCES	
Proceeds from Notes Payable	<u>640,016</u>
NET CHANGE IN FUND BALANCE	365,708
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	<u>(524,667)</u>
FUND BALANCE (DEFICIT) AT END OF YEAR	<u>\$ (158,959)</u>

See accompanying notes to basic financial statements.

ACADEMY OF DOVER

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

Net Change in Fund Balance - Total Governmental Funds	\$	365,708
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital Outlays		22,465
Depreciation Expense		(72,810)
Governmental funds report borrowings as receipts. However, in the statement of net assets, it increases long-term liabilities.		
		(640,016)
Governmental funds report repayments of long-term debt as an expenditure, but the repayment reduces long-term liabilities in the statement of net assets.		
		48,438
Governmental funds report repayments of capital lease liabilities as debt expenditures. However, in the statement of net assets, the repayment reduces capital leases payable.		
		151,394
CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	<u>(124,821)</u>

See accompanying notes to basic financial statements.

ACADEMY OF DOVER

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy of Dover (the "School") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the School are described below.

Reporting Entity

The School, which opened in September 2003, was established to provide a unique learning environment to students. The School is considered to be a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all activities of the School.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to students who purchase, use, or directly benefit from goods and services provided and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Grants and other revenues not properly included among program revenues are reported as general revenues.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to school districts are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and capital leases are recorded only when payment is due.

The School reports only one fund which is the general fund (a governmental fund type).

Cash And Cash Equivalents

Except for the petty cash and cafeteria accounts, cash and cash equivalents of the School are controlled by the State Treasurer's Office in Dover, Delaware. The petty cash and cafeteria accounts are controlled by the School.

ACADEMY OF DOVER

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Receivables

All receivables are considered fully collectible by management. No allowance for bad debts is deemed necessary.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include furniture and equipment, are reported in the government-wide financial statements. For the year ended June 30, 2005, the School has not formalized its capitalization policy but has defined capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets would be recorded at estimated fair value at the date of donation.

The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend lives of the assets are not capitalized.

Furniture and equipment of the School are depreciated using the straight-line method over the estimated lives of the assets, which range from five to twenty years.

Compensated Absences

Vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements and the governmental funds because the liability is considered current.

Vacation

Employees are not paid for unused vacation upon resignation or termination. Twelve-month employees are entitled to 10 days of vacation each year.

Sick and Personal Leave

Sick leave allowances are as follows: 10 days for 10-month salaried employees, 6 days plus one additional day for each year of employment (not to exceed 10) for 10-month hourly employees, and 12 days for 12-month employees. Personal leave allowances are as follows: 2 days for 10-month salaried employees, 6 days plus one additional day for each year of employment (not to exceed 10) for 10-month hourly employees, and 5 days for 12-month employees. Compensation for accumulated sick days is paid when employees qualify and apply for State pension and is paid at a rate of 50 percent of the per diem rate of pay, not to exceed 90 days.

ACADEMY OF DOVERNOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. No such reservations existed at June 30, 2005.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND CASH EQUIVALENTS

At June 30, 2005, the School has cash and cash equivalents balance of \$73,421. Of that amount, \$63,147 is part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware and all investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

The petty cash and cafeteria petty cash accounts are in the custody of School officials. The book and bank balances of these funds was \$10,274 and \$10,545, respectively. The bank balance of cash deposits are insured by the Federal Deposit Insurance Corporation (FDIC) and, therefore, there is no custodial credit risk for these cash deposits.

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 follows:

	BEGINNING BALANCES	INCREASES	DECREASES	ENDING BALANCES
Capital Assets Being Depreciated:				
Furniture and Equipment	\$ 476,295	\$ 22,465	\$ -	\$ 498,760
Less Accumulated Depreciation:				
Furniture and Equipment	58,896	72,810	-	131,706
Total Capital Assets Being Depreciated, Net	<u>\$ 417,399</u>	<u>\$ (50,345)</u>	<u>\$ -</u>	<u>\$ 367,054</u>

ACADEMY OF DOVERNOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE C – CAPITAL ASSETS - CONTINUED

For the year ended June 30, 2005, depreciation expense of \$59,234 and \$13,576 was included in instructional services and operation and maintenance of facilities, respectively.

NOTE D – LEASING ARRANGEMENTS

OPERATING LEASES

The School leases its facilities under an operating leasing arrangement expiring August 31, 2013. The facility lease started September 1, 2003. The base year rental is \$38,000 per month. Rent is to increase each year by the lesser of 5% or the increase in the Consumer Price Index. The lease contains a five year renewal option.

The School leases cafeteria equipment under an operating leasing arrangement expiring in July 2007. The equipment lease started in October 2005. The base year rental is \$605 per month.

Rent expense for the year ended June 30, 2005 was \$462,783, of which \$456,000 was included in operation and maintenance of facilities and \$6,783 was included in school lunch services.

The future minimum rentals are as follows:

<u>YEAR ENDING JUNE 30,</u>	<u>AMOUNT</u>
2006	\$ 463,258
2007	456,605
2008	456,000
2009	456,000
2010	456,000
2011 - 2013	<u>1,368,000</u>
TOTAL	<u>\$ 3,655,863</u>

CAPITAL LEASES

The School has leased \$299,562 of computers and office equipment under capital leases with HP Financial Services. Monthly payments including principal and interest are approximately \$14,000. Interest expense for the year ended June 30, 2005 was \$17,075 and was included in operation and maintenance of facilities.

The future minimum lease obligations are as follows:

<u>YEAR ENDING JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2006	<u>\$ 65,816</u>	<u>\$ 1,801</u>	<u>\$ 67,617</u>

Capital lease activity for the year ended June 30, 2005 was as follows:

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>ENDING BALANCE</u>	<u>DUE WITHIN ONE YEAR</u>
Capital Lease	<u>\$ 217,210</u>	<u>\$ -</u>	<u>\$ 151,394</u>	<u>\$ 65,816</u>	<u>\$ 65,816</u>

ACADEMY OF DOVERNOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**NOTE E - LONG-TERM DEBT**

On November 10, 2004, the School signed a \$129,625 note with School Specialty, Inc. bearing an interest rate of 12%. The terms of the note require the following payments: \$29,533 in October 2004, \$4,910 in November 2004, and \$4,305 each month thereafter. The final payment is due March 1, 2007.

The School signed three notes in fiscal 2005 with its management company, Mosaica Education, Inc. The first note, representing management fees of \$156,856 for fiscal 2004, bears interest at the rate of 6%. Monthly payments of \$4,772 begin July 1, 2006. The final payment is due May 1, 2009. The second note, representing management fees of \$185,067 for fiscal 2005, bears interest at the rate of 6%. Monthly payments of \$5,630 begin July 1, 2006. The final payment is due May 1, 2009. The third note, representing repayment of amounts loaned to the School and a buyback of supplies of \$168,468, is a non-interest bearing note. Monthly payments of \$4,680 begin July 1, 2006. The final payment is due May 1, 2009.

Interest expense for the year ended June 30, 2005 was \$16,143 and was included in instructional services.

Annual debt service requirements to maturity for the notes are as follows:

<u>YEAR ENDING</u> <u>JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2006	\$ 44,307	\$ 7,358	\$ 51,665
2007	200,262	19,466	219,728
2008	169,994	10,985	180,979
2009	177,015	3,963	180,978
	<u>\$ 591,578</u>	<u>\$ 41,772</u>	<u>\$ 633,350</u>

Long-term debt activity for the year ended June 30, 2005 was as follows:

	<u>BEGINNING</u> <u>BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>ENDING</u> <u>BALANCE</u>	<u>DUE WITHIN</u> <u>ONE YEAR</u>
Notes Payable	\$ -	\$ 640,016	\$ 48,438	\$ 591,578	\$ 44,307

NOTE F - PENSION PLAN

School employees are considered State employees and are covered under the State's pension program. The State contributed 13.25% for fiscal 2005 of the State's share of the employees' salary. The School contributed the same percentages on the local share of the salary. The employees contribute 3% of salary in excess of \$6,000 per share up to social security maximum and 3% for any salary above social security maximum. Total pension cost of \$111,078 (State share), \$25,162 (federal share), and \$17,318 (local share) is included in the financial statements. Pension costs accrued at June 30, 2005 were approximately \$30,000. Certain significant plan provisions follow:

- Early Retirement:
 - a. 15 Years Service - Age 55
 - b. 25 Years Service - Any Age

ACADEMY OF DOVERNOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE F - PENSION PLAN - CONTINUED

- Service Retirement:
 - a. 15 Years Service - Age 60
 - b. 30 Years Service - Any Age
 - c. 5 Years Service - Age 62
- Disability Retirement:
 - a. 5 Years Service and Proof of Disability
- Vested Pension:
 - a. An employee can vest pension rights after five years of service.

The State's pension program is a defined benefit plan. More information on this plan is available in the State of Delaware Public Employee Retirement System (DPERS) Comprehensive Annual Financial Report. This report may be obtained by writing DPERS at Suite 1, McArdle Building, 860 Silver Lake Boulevard, Dover, Delaware 19904 or calling 1-800-722-7300.

NOTE G - COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

Grants

The School receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the School. The School's administration believes such disallowance, if any, would be immaterial.

NOTE H - RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in either of the past two years. There were no significant reductions in coverage compared to the prior year.

NOTE I - RECEIVABLE FROM DELAWARE SCHOOL DISTRICTS

Caesar Rodney School District	\$	11,283
Smyrna School District		4,142
		<hr/>
TOTAL	\$	15,425
		<hr/>

ACADEMY OF DOVERNOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE J – DEFICIT UNRESTRICTED NET ASSETS

The governmental activities had a deficit unrestricted net asset balance of \$750,537 at June 30, 2005 which the School expects to recover through increased revenues through the following:

- The Board has eliminated eight positions and reduced spending in many areas. The Board feels this will not reduce the quality of the School's education programs.
- The School is working with the new Mosaica Regional Vice President (RVP) and the Mosaica Director of Fundraising and Development to create an aggressive strategy to acquire discretionary grant funds. Both the RVP and the Director have proven success in acquiring grant dollars.
- The Board plans to increase enrollment, thereby increasing revenues, with the following:
 - The Board will hold extensive advertising campaigns using television, radio, and newspaper ads, as well as student testimonials and community recruiting.
 - The Board will hold its Open House and registration in March this year. In addition, the Board will administer DIAL testing for potential kindergarten students approximately five months earlier than most schools. Administering DIAL testing along with registration gives the School a jump on identifying potential kindergarten students for the 2006-2007 school year.
 - The Board is partnering with Head Start, a community-based organization, to bring in additional students and revenue.
 - The School will hold a monthly seminar that will provide topics relative to parenting.
 - During registration, the Board will request that parents sign a letter of intent indicating their intention to reenroll their child for the following year. This will provide the School with a more concise number of students and thereby assist with the development of a more accurate budget.
 - The Board plans to strengthen the School's current program to better prepare students for the State's standardized test.
- The Board plans to reexamine the School's relationship with its management company, Mosaica Education, Inc. The Board wants to renegotiate the terms and conditions of their contract to meet the following objectives:
 - Additional oversight to ensure better financial management;
 - Establish monitoring for measureable objectives; and
 - Reexamination of the current terms and conditions.

NOTE K – GOING CONCERN

During the course of the audit, the following issues were noted: the School is unable to make timely payments; the School has received numerous monetary transfers from the management company in order to cover payments made; the School continues to increase its debt, including three notes signed with the management company; and the School continues to have unrestricted net asset deficit balances that are not being recovered through ongoing operations. Therefore, these issues create an uncertainty about the School's ability to continue as a going concern. Refer to Note J for management's plans to increase revenues.

NOTE L – RELATED PARTY TRANSACTIONS

The School signed three notes in fiscal 2005 with its management company, Mosaica Education, Inc. These notes represent the following: management fees of \$156,856 for fiscal 2004, management fees of \$185,067 for fiscal 2005, and repayment of amounts loaned to the School and a buyback of supplies of \$168,468. Payments on these notes begin July 1, 2006.

REQUIRED SUPPLEMENTAL INFORMATION

ACADEMY OF DOVER

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED JUNE 30, 2005

	BUDGETED AMOUNTS		ACTUAL AMOUNTS BUDGETARY	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	BASIS	
REVENUES				
State Support	\$ 2,079,461	\$ 2,079,461	\$ 2,231,437	\$ 151,976
Federal Support	475,225	475,225	326,579	(148,646)
Charges to School Districts	468,774	468,774	450,497	(18,277)
School Lunch Services	157,248	157,248	156,724	(524)
Miscellaneous Revenues	40,397	40,397	23,400	(16,997)
Earnings on Cash and Cash Equivalents	10,000	10,000	1,395	(8,605)
TOTAL REVENUES	<u>3,231,105</u>	<u>3,231,105</u>	<u>3,190,032</u>	<u>(41,073)</u>
EXPENDITURES				
Current:				
Advertising	5,000	5,000	9,412	(4,412)
Communications	17,000	17,000	23,868	(6,868)
Contracted Services	577,149	577,149	536,308	40,841
Employment Costs	463,296	463,296	488,229	(24,933)
Insurance	22,427	22,427	30,715	(8,288)
Interest	-	-	(604)	604
Land/Building/Facilities	483,000	483,000	424,658	58,342
Miscellaneous/Contingency	64,622	64,622	-	64,622
Public Utility Services	47,500	47,500	39,413	8,087
Repairs and Maintenance	25,000	25,000	15,245	9,755
Salaries	1,185,588	1,185,588	1,131,974	53,614
School Lunch Services	129,684	129,684	218,071	(88,387)
Supplies and Materials	98,180	98,180	156,432	(58,252)
Transportation - Buses	223,440	223,440	242,158	(18,718)
Travel	400	400	945	(545)
Capital Outlay	73,886	73,886	-	73,886
TOTAL EXPENDITURES	<u>3,416,172</u>	<u>3,416,172</u>	<u>3,316,824</u>	<u>99,348</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>\$ (185,067)</u>	<u>\$ (185,067)</u>	(126,792)	<u>\$ 58,275</u>
OTHER FINANCING SOURCES				
Cash Proceeds from Notes Payable			<u>168,468</u>	
NET CHANGE IN FUND BALANCE			41,676	
Fund Balance at Beginning of Year			<u>31,745</u>	
Fund Balance at End of Year			<u>\$ 73,421</u>	

ACADEMY OF DOVER

NOTES TO THE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED JUNE 30, 2005

The School's budget is prepared on the cash basis of accounting. The amount reported as "net change in fund balance" on the budgetary basis derives from the cash basis of accounting. Revenues are reported when received and expenditures are reported when paid. This amount differs from the "net change in fund balance" reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund on page 10.

That statement is prepared on the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The following reconciles the net change in fund balance per the budgetary basis to the net change in fund balance per the modified accrual basis.

NET CHANGE IN FUND BALANCE, BUDGETARY BASIS	\$ 41,676
Net Increase in Receivables	62,255
Net Decrease in Prepaid Items	(57,688)
Net Decrease in Payables	67,864
Net Increase in Accrued Salaries and Related Costs	(32,280)
The School incurred notes payable for supplies and materials of \$127,025 and management fees of \$156,856 during fiscal 2005. No cash was received or paid as a result of this transaction.	283,881
NET CHANGE IN FUND BALANCE, MODIFIED ACCRUAL BASIS	\$ 365,708

OTHER INFORMATION

ACADEMY OF DOVERCONDENSED GOVERNMENT-WIDE FINANCIAL STATEMENTS
JUNE 30, 2005

The primary government requires a classification of receipts which differs from accounting principles generally accepted in the United States of America at the School level.

The following are condensed government-wide financial statements as of and for the year ended June 30, 2005:

STATEMENTS OF NET ASSETS

(In Thousands)

CURRENT ASSETS

Cash and Cash Equivalents	\$	73	
Receivable from Primary Government		90	
Other Receivable		-	
Prepaid Items		1	
TOTAL CURRENT ASSETS			\$ 164

NONCURRENT ASSETS

Capital Assets, Net			367
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TOTAL ASSETS			531
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CURRENT LIABILITIES

Accounts Payable		99	
Accrued Liabilities		225	
Current Portion - Capital Leases		66	
Current Portion of Long-Term Debt		44	
TOTAL CURRENT LIABILITIES			434

LONG-TERM LIABILITIES

Capital Leases		-	
Notes Payable			547

TOTAL LIABILITIES			981
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NET ASSETS

Invested in Capital Assets, Net		301	
Unrestricted (Deficit)		(750)	

TOTAL NET ASSETS			\$ (449)
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ACADEMY OF DOVERCONDENSED GOVERNMENT-WIDE FINANCIAL STATEMENTS
JUNE 30, 2005STATEMENT OF ACTIVITIES

(In Thousands)

EXPENSES		\$	3,389
PROGRAM REVENUES			
Charges for Services	\$	51	
Operating Grants and Contributions - Primary Government		496	
Operating Grants and Contributions - Other		23	
Capital Grants and Contributions - Primary Government		-	
TOTAL PROGRAM REVENUES			<u>570</u>
NET EXPENSE			(2,819)
GENERAL REVENUES			
Payments from Primary Government		2,693	
Earnings on Cash and Cash Equivalents		1	
Miscellaneous		-	
TOTAL GENERAL REVENUES			<u>2,694</u>
CHANGE IN NET ASSETS			(125)
NET ASSETS AT BEGINNING OF YEAR			<u>(324)</u>
NET ASSETS AT END OF YEAR		\$	<u>(449)</u>

ACADEMY OF DOVER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Academy of Dover.
2. Two reportable conditions were identified during the audit of the basic financial statements of Academy of Dover.
3. No instances of noncompliance material to the financial statements Academy of Dover were disclosed during the audit.

FINDINGS – COMPLIANCE REPORTING

None.

FINDINGS – FINANCIAL REPORTING

Finding 2005-01

Academy of Dover has insufficient policies and procedures regarding the recording, processing, summarizing, and reporting of expenditures and does not have written policies and procedures regarding the recording, processing, summarizing, and reporting of cash; revenues, receivables, and receipts; debt; and payroll and related liabilities. In addition, the School does not have written policies and procedures for originating, authorizing, preparing, and approving input transactions.

According to the State of Delaware *Budget and Accounting Manual*, "Department or agency heads are responsible for establishing and maintaining an effective system of internal control." Additionally, the Manual states, "Internal control provides management with reasonable assurance that its policies and procedures are implemented and consistently followed to ensure efficient and effective organizational operation." Further, the Manual states, "A well designed system of controls must include written policies and procedures to ensure that each control objective is met".

By not maintaining sufficient policies and procedures for financial transactions, the School has no method of ensuring efficient and effective organizational operation.

RECOMMENDATION:

Academy of Dover develop and implement sufficient written policies and procedures governing the recording, processing, summarizing, and reporting of cash; revenues, receivables, and receipts; debt; expenditures; and payroll and related liabilities. Academy of Dover develop and implement sufficient written policies and procedures for originating, authorizing, preparing, and approving input transactions. These policies and procedures should incorporate information such as:

- Sufficient segregation of duties or mitigating controls
- Specific job functions for each employee, including preparation and review
- Retainage of support documentation

AUDITEE RESPONSE:

Academy of Dover has committed to State Officials that a tailored Accounting Manual will be available for use on or before November 30, 2005 that addresses these concerns.

ACADEMY OF DOVER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005

Finding 2005-02

Academy of Dover does not retain copies of DFMS reconciliation reports. In addition, the same person who inputs data into DFMS also reconciles the documents and reports.

According to the State of Delaware *Budget and Accounting Manual*, "the most important issue to remember is to retain all financial documents until a successful audit has been completed. A successful audit is one in which ALL General, Special and federal findings and recommendations have been completely resolved." In addition, "...the work of employees is subdivided, wherever possible, so that no single employee performs a complete cycle of operations." An adequate system of internal controls consists of policies and procedures, which would provide for a segregation of duties between key accounting functions, which help to reduce the risk of error or inappropriate actions.

Due to lack of evidence, AOA could not determine if reconciliations were performed. There is an increase in the risk of misappropriation of assets due to the lack of segregation of duties.

RECOMMENDATION:

Academy of Dover retain copies of the DFMS reconciliation reports, with preparer signature and date of preparation. School officials should review the reconciliations and sign as evidence of review and approval.

AUDITEE RESPONSE:

DFMS reconciliation reports will be reviewed, approved, and retained on an ongoing basis with appropriate segregation of duties factored in.

STATUS OF PRIOR YEAR FINDINGS

Finding 2004-01

In our audit testing, we noted that the School had not formalized its capitalization policies and also had not developed the written fixed asset policies and procedures which are required by the State.

A formal capitalization policy provides consistency in accounting for fixed assets and improvements from year to year. Written policies and procedures improve internal control over fixed assets.

RECOMMENDATION:

Academy of Dover adopt policies for fixed assets which are in compliance with State requirements, formalize its capitalization policy, and establish policies for items that are "publicly appealing" but below the capitalization threshold, such as computers and other electronic equipment.

AUDITEES PLAN FOR CORRECTIVE ACTION:

A policy was created but not formally approved. It is to be discussed and voted on at the September 24, 2004 Board meeting.

CURRENT YEAR STATUS:

Implemented.

Finding 2004-02

In our audit testing, we noted that there were checks which were voided; however, the State's procedures for voiding checks were not followed. Failure to follow State procedures may lead to inaccurate recordkeeping and financial reports.

RECOMMENDATION:

The State's procedures for voiding checks be followed.

ACADEMY OF DOVER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005

AUDITEES PLAN FOR CORRECTIVE ACTION:

Payments that are found to be erroneous are rare and voided as soon as possible. However, we recognize the need to utilize the State of Delaware process to ensure DFMS is updated timely and accurately. Proper procedures are being reinforced and training is being conducted to help ensure compliance in the future.

CURRENT YEAR STATUS:

Implemented.



STATE OF DELAWARE

OFFICE OF AUDITOR OF ACCOUNTS

R. THOMAS WAGNER, JR., CGFM, CFE
AUDITOR OF ACCOUNTS

PHONE: (302) 739-4241
FAX: (302) 739-2723

September 1, 2005

To the Members of the Board and President and Mr. Leonard Litzi, Chief Administrative Officer
Academy of Dover
Dover, Delaware

In planning and performing our audit of the financial statements of Academy of Dover (the "School") for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the School's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the other information section of the June 30, 2005 financial statements as 2005-01 and 2005-02.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

During our audit, we became aware of several other matters that are opportunities for strengthening internal control and operating efficiency. These matters are described in Appendix A, "Other Comments and Recommendations".

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the June 30, 2005 financial statements, and this report does not affect our report on those financial statements dated September 1, 2005. We have not considered the internal control since the date of our report.

This report and the attached comments and recommendations in Appendix A are intended solely for the information and use of the School's management, School Board Members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, and Secretary of Finance and is not to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(c), this report is public record and its distribution is not limited.

Sincerely,

OFFICE OF AUDITOR OF ACCOUNTS

R. Thomas Wagner, Jr., CGFM, CFE
Auditor of Accounts

OTHER COMMENTS AND RECOMMENDATIONS

Finding: Petty Cash Signatures

Academy of Dover's petty cash account requires only one signature on checks and, therefore, does not comply with State regulations.

According to the State of Delaware *Budget and Accounting Manual*, "petty cash checks must be signed by two employees of the agency."

Recommendation:

Academy of Dover require two signatures on all petty cash checks.

Auditee Response:

We agree and will implement the recommendation immediately.

Finding: Petty Cash Reconciliations

Bank reconciliations do not reconcile the book balance per the check register to the balance per the bank statement. As a result, the School did not identify and/or reconcile discrepancies within the check register.

The State of Delaware *Budget and Accounting Manual* provides an example of a petty cash reconciliation, which includes the bank statement balance, less any deposits in transits, plus any outstanding checks. The ending balance on the reconciliation should agree to the book balance.

Recommendation:

Academy of Dover reconcile the bank balance to the book balance on a monthly basis, following the example provided in the State of Delaware *Budget and Accounting Manual*. Any discrepancies between the balances should be researched and resolved. In addition, the reconciliations should be signed and dated by the preparer to denote timely preparation.

Auditee Response:

All petty cash transactions were verified to the bank activity. Check register addition/subtraction errors when compared to the bank statement will be noted.

Auditor's Comment:

The auditor's found that there were unresolved discrepancies between the book and bank balances. Discrepancies should not only be noted, they should be researched and resolved. In addition, reconciliations should be prepared monthly and signed and dated by the preparer.

Finding: Facsimile Stamps

According to Academy of Dover officials, one authorized signer was designated to approve and sign petty cash checks. In the authorized signer's absence, a facsimile stamp is used. The person that prepares the checks has access to the stamp, causing a lack of segregation of duties. The lack of segregation of duties could lead to the misappropriation of assets.

Recommendation:

Academy of Dover use only live signatures on petty cash checks or add another authorized signer to the account.

Auditee Response:

To be in compliance with the State of Delaware *Budget and Accounting Manual* requirement of two signatures on all petty cash checks, we will add two additional signers to all petty cash checking accounts. We, also, will discontinue the use of facsimile signatures on all documents, including petty cash checks. It should be noted there were [sic] no misappropriation of assets.

OTHER COMMENTS AND RECOMMENDATIONS

Finding: Petty Cash Transactions Support

Academy of Dover does not consistently maintain proper support for petty cash transactions, which results in noncompliance with the State of Delaware *Budget and Accounting Manual*.

According to the State of Delaware *Budget and Accounting Manual*, Chapter 7, Section C8 - Petty Cash, "the receipts and supporting documentation will be retained by the agency for audit."

Recommendation:

Academy of Dover retain proper supporting documentation for all petty cash transactions.

Auditee Response:

Academy of Dover maintains petty cash documentation for all transactions. However, a couple of documents were inadvertently misplaced. We do agree that documentation should be retained.

Finding: Petty Cash Transactions > \$500

Academy of Dover made numerous payments greater than \$500 out of the petty cash account. These payments were not processed on PV forms and, therefore, were not processed through DFMS. The School is not following State regulations in processing petty cash transactions.

According to the State of Delaware *Budget and Accounting Manual*, petty cash "payments in excess of \$500.00, but not exceeding \$2,500 will be processed on PV forms."

Recommendation:

Academy of Dover process all payments greater than \$500 through DFMS.

Auditee Response:

We agree and will implement the recommendation immediately.

Finding: Cafeteria Bi-Annual Reports

Academy of Dover processes cafeteria expenditures through four DFMS appropriations and two cash accounts held outside of DFMS. This creates difficulty when accumulating and reconciling information for the Bi-Annual Financial Report for School Lunch, Breakfast, and Snack Programs.

Academy of Dover did not provide support for the individual Bi-Annual Reports. However, the School did provide support for the two reports combined. Good accounting and reporting policies require adequate support and evidence for all numbers on financial reports.

Recommendation:

Academy of Dover limit the appropriations and cash accounts used for cafeteria activity to those designated for cafeteria activity (appropriation 8002, Lunch Money) and the cafeteria petty cash account.

Auditee Response:

While it would be ideal to process the cafeteria transactions through one appropriation account and the cafeteria petty cash account, that is not possible. The payment, established during fiscal year 2004, for leased equipment is drawn electronically from the non-cafeteria petty cash bank account.

Auditor's Comment:

The equipment lease expires in 2006 and will no longer be a relevant issue at that time. The School is capable of, and should, limit the number of DFMS appropriations used to record cafeteria activity.

OTHER COMMENTS AND RECOMMENDATIONS

Finding: Cafeteria Homeroom Forms

Homeroom teachers collect cafeteria funds from students and prepare the homeroom cafeteria form. The forms are then submitted to and reviewed by a cafeteria employee. However, the forms are not consistently signed by the teachers and cafeteria employee.

According to the State of Delaware *Budget and Accounting Manual*, "the following specific control objectives are widely accepted as elements of good control and should be used by management and financial managers:

- Validation - ensuring that recorded transactions represent real transactions
- Authorization - ensuring that all transactions are approved by management."

Failure to signed and date the forms results in insufficient evidence of reconciliation and management review.

Recommendation:

Academy of Dover's teachers sign and date all homeroom forms when money is collected and cafeteria employees sign and date denoting timely review and agreement of funds received.

Auditee Response:

We agree with the recommendation and will implement it immediately.

Finding: CR Documents

Academy of Dover did not provide proper documentation in regards to cash receipts (CR) testing. Five CR documents were selected for testing. Findings related to these documents are as follows:

- 3 CRs - Originals could not be located by the School; photocopies of the CRs were provided. For two of the three, supporting documentation was not maintained.
- 2 CRs - Neither the CRs nor the supporting documentation could be located by the School.

According to the State of Delaware *Budget and Accounting Manual*, agencies should "retain all financial documents until a successful audit has been completed".

Recommendation:

Academy of Dover retain all original financial documents and all supporting documentation.

Auditee Response:

We will maintain all documentation, not just when a successful audit is completed, but within record retention guidelines. It should be noted the original of all cash receipt (CR) transactions are maintained by the State of Delaware Treasurer's Office. The School maintains carbon copies of the CRs.

Auditor's Comments:

Five CRs were selected for testing and issues were found with each CR document. The State-mandated CR form is a quadruplicate form. The top copy of this form is required to be sent to, and maintained by, the State Treasurer's Office. The remaining carbon copies should be maintained by the School as original support for CR transactions. The School did not provide carbon copies for any of the five CRs selected for testing.

Carbon copies are considered to be original documentation and, hence, are primary audit evidence. Photocopies allow for the possibility of fraudulent activity and are not considered adequate audit support. The recommendation stands that the School should maintain a carbon copy for all CR transactions, as well as supporting documentation.

OTHER COMMENTS AND RECOMMENDATIONS

Finding: Daily Deposits

Deposits are not made daily, when \$100 is collected, or at least weekly. The School, therefore, is not in compliance with State regulations.

According to the State of Delaware *Budget and Accounting Manual*, "all monies which belong to the State are to be deposited on the day of receipt ... with the exception of ... when an agency receives less than \$100 in daily deposits. Those agencies which do receive less than \$100 in daily receipts, shall make a deposit when the accumulated undeposited receipts exceed \$100 or on a weekly basis, whichever occurs first."

Recommendation:

Academy of Dover make deposits in accordance with the State of Delaware *Budget and Accounting Manual* regulations.

Auditee Response:

We agree with the recommendation and will implement it immediately.

Finding: Receipts for Cash Received

Academy of Dover receives money for items such as donations and school activities. Receipts are prepared only when requested; receipts are not always given for cash and checks received. Therefore, supporting documentation is not maintained for all money received by the School.

According to the State of Delaware *Budget and Accounting Manual*, "cashiers will issue an official pre-numbered receipt to a payor, a copy of which will be retained in file for audit purposes."

Recommendation:

Academy of Dover prepare receipts when both cash and checks are received and incorporate this procedure into their written policies and procedures regarding cash. The School should prepare receipts using triplicate receipts - the original is given to the person giving the money, one copy is attached to the CR document, and the remaining copy should remain in the receipt book for ease of reconciliation.

Auditee Response:

We agree with the recommendation.

Finding: Reconciliations Timeliness and Verification

Academy of Dover's completed bank and payroll reconciliations were not signed or dated by the preparer and/or reviewer.

According to the State of Delaware *Budget and Accounting Manual*, "the following specific control objectives are widely accepted as elements of good control and should be used by management and financial manager:

- Validation - ensuring that recorded transactions represent real transactions
- Authorization - ensuring that all transactions are approved by management."

Lack of signatures and dates results in a failure to provide evidence of timely validation and authorization. AOA was unable to determine if reconciliations were performed timely.

Recommendation:

Academy of Dover sign and date bank and payroll reconciliations to signify validation and authorization.

Auditee Response:

We agree and will implement the recommendation immediately.

OTHER COMMENTS AND RECOMMENDATIONS

Finding: Timecards Lack Supervisor's Signature

Two timecards tested at Academy of Dover were not signed by the School officials. Additionally, timecards were not consistently prepared.

According to the State of Delaware *Budget and Accounting Manual*, "the following specific control objectives are widely accepted as elements of good control and should be used by management and financial manager:

Authorization - ensuring that all transactions are approved by management

Validation - ensuring that recorded transactions represent real transactions."

Lack of signatures and dates results in failure to provide evidence of timely authorization and validation.

Recommendation:

Academy of Dover officials sign and date timecards to provide evidence of authorization and validation.

Academy of Dover implement a standard method of timecard completion.

Auditee Response:

We agree and will implement the recommendation immediately.